VITUCCI INTEGRATED PLANNING

INVESTMENT MARKET COMMENTARY

Mid-Quarter Investment Market Commentary – 4th Quarter 2018

November 27, 2018

I hope you had a wonderful Thanksgiving holiday weekend.

It may not feel like it, but the markets are becoming a bit more “normal” than they have been in recent years. Market volatility — how much stock prices move up and down — has returned to more typical levels after the historic lows in 2017. This is important to recognize and appreciate. Volatility can make us uncomfortable, but the knowledge that it is part of investing makes it less likely to interfere with our financial goals.

In addition, interest rates continue to rise — which investment markets are still digesting. Both short-term and long-term interest rates have been abnormally low for the last 10 years. But they are now moving higher to more closely align with the economic data, such as overall economic growth, national employment, and inflation. Part of the current market jitters pertain to how increased borrowing costs will impact corporate profits. However, interest rates remain a bit lower than normal (by historical standards) and will likely not move significantly higher than the economic data suggests. Higher interest rates may be more beneficial to balanced portfolios that contain more than just equities. Should the Fed continue on its current course, cash-based investments could contribute appreciation to total portfolio returns.

There are a few areas our sub-advisor partners are focused on in the current environment:

- Divided Government -- Gridlock, which has historically ensued from a split Congress, has historically been good for stocks. Some would view this as positive, because gridlock prevents Congress from enacting policies that may hamper growth. On the other hand, permanent tax cuts for individuals, deregulation, and healthcare reforms are likely not going to move forward.

- Tepid Tech Sector Earnings -- This sector has recently had some earnings misses as these companies deal with rising rates and trade disputes. Equity valuations were also high and especially high for the technology sector. The price of stocks was expensive relative to the earnings tech companies were generating. There was a lot of future growth baked into the earnings. Valuations coming down is not necessarily a bad thing as investors' expectations are back down to earth; this could prevent future bubbles from forming.

- Falling Oil Prices -- The energy sector makes up around 6% of the S&P 500, so falling oil prices have a direct impact on the sector. On a positive note, the fall in energy prices puts money into consumers' pockets as they pay less for gas. This could have an impact on consumer spending for the holidays.

- European Market Concerns -- the UK is going through an exit plan from the European Union (EU) and Italy is at odds with the E.U. on its budget plan. Italian bonds are now trading near junk bond status. While this is becoming a tense situation, the countries in the E.U. have mutual goals. However, heated rhetoric out of the EU is expected to continue.

Currently, the S&P 500 is down near 10% from its peak, putting it about half way to a bear market, which would be down 20%. We are nearly 10 years into an economic expansion, and growth will naturally slow as all economic cycles end eventually. Growth around the rest of the world is already slowing. While risks mount, there is still reason for optimism. Valuations are lower, falling oil prices means more money for consumers right before the holiday season, US growth is slowing but economic fundamentals remain strong, and the Fed may reconsider its current course of action.

During market fluctuations, we are reminded of the importance of diversification. Bonds and alternative asset classes can buffer equity volatility. Those clients with these types of allocations have seen the benefit of their inclusion.

As the holidays approach and another calendar year nears its end, we thank you again for your trust in us. As always, if you would like to review your plan and the progress made toward your goals, please let me know any time.

My best,

Jason

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Financial Advisor

Asset Class Performance January 1, 2018 – November 23, 2018

S&P 500 (US Large Cap)	+0.19%
MSCI EAFE (Developed International)	-10.26%
MSCI Emerging Markets	-14.51%
Barclays Agg Bond (US Corporate Bonds)	-1.92%
Crude Oil	-16.55%
Gold	-6.13%

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High quality investments are investments in securities issued by companies with the propensity for higher than average characteristics including higher and more consistent profitability, stronger balance sheets, and higher dividend growth. The primary diversifiable risk is opportunity risk.

International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depository Receipts, or a direct investment in a foreign stock exchange. Diversifiable risks include, but are not limited to, political risk and currency risk.

Bonds are a type of debt instrument issued by a government or corporate entity for a defined period of time at a fixed interest rate. Bonds may be subject to unsystematic risks including, but are not limited to, call risk and reinvestment risk. High yield bonds, or junk bonds, will be subject to an even greater degree of these risks as well as subject to the credit risk. Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.

A client's risk budget is derived from the client's specific answers to a risk assessment, which establishes the client's financial goals, ability to handle risk, and overall investment time horizon. The individual client risk budget is expressed as a percentage of the risk of a well-diversified equity portfolio. CLS Investments & Cetera Investment Management contributed to this commentary.

Please remember that diversification and asset allocation do not guarantee a profit nor protect against loss in a declining market. They are methods used to help manage risk.

The Dow Jones Real Estate Indices are part of the Dow Jones Global Indices* family, a comprehensive yet investable index series that provides 95% market capitalization coverage of 51 countries. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The DXY is the U.S. Dollar Index. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The MSCI Small Cap Index target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.

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